



**Statement of Charles Totemoff
Chief Executive Officer
Chenega Corporation
June 21, 2006**

Honorable Chairmen and Members of the combined Committees on Government Reform and Small Business, thank you for the opportunity to provide testimony to you on the topic of the success of Alaska Natives participating in the U.S. Small Business Administration (SBA) Minority Enterprise Development Program, also known as the SBA 8(a) Program. I must state that we appear with serious misgivings about the preconceptions of the committee members and staff. The very title of this hearing **"Northern Lights and Procurement Plights: The Effect of the ANC Program on Federal Procurement and Alaska Native Corporations"** conveys a prejudice and lack of understanding of Alaska Natives. I come before you today to speak directly to those points with facts and supported by independent verification by the very Federal agencies and the U.S. Government Accountability Office that provide testimony to you today.

My name is Charles Totemoff, and I am the President & Chief Executive Officer of the Chenega Corporation. Chenega is an Alaska Native village settled thousands of years ago by our forefathers. I am an Alaska Native, a shareholder of the Chenega Corporation, and I have served on the board of the corporation since 1983. I grew up in the village of Chenega and have been with the Corporation from the beginning when we had nothing to provide to our



Elders and shareholders. Like my fellow Alaska Native leaders sitting beside me, I work each day to help my people achieve self-sufficiency.

In the late 1980s, Congress and the Small Business Administration recognized that native villages like Chenega, and lower-48 tribes as well, faced a real problem in government contracting. Unlike other small businesses, they did not simply represent a family or a partnership, but were supposed to be engines of economic growth for an entire community. Changes needed to be made to recognize this fact, and allow native-run small business to grow a little larger, to obtain larger contracts, and remain in the program longer.

I recognize that these changes have been controversial, but they have allowed the program to work for Native communities that participate. We are doing exactly what the federal government told us to do, and we are doing it well. The program has not worked perfectly, to be sure, but I challenge you to show me another federal program that works as well for the Native communities that agree to work hard and play by the rules.

I am proud to say that eventually, as the result of much hard work, Chenega has been successful in the government contracting business. But it was not an overnight success. There were many lean years as the company made the investments in time and resources learning the business.



Chenega Corporation was pleased to be a participant in the GAO Audit. Chenega Corporation, its shareholders, and the Federal customers with which Chenega does business are proud to relate that the GAO did not cite a single incident of waste, fraud, or abuse by an Alaska Native Corporation. Nor were Chenega Corporation and its subsidiaries found to be performing any Federal Contracts at below superior standards.

You know, Mr. Chairman, the SBA's Native 8(a) program has been around a long time. Nobody complained when we were simply getting contracts to perform maintenance at federal facilities. But now that we've grown, gained expertise, and are actually succeeding in getting federal contracts in substantive areas, people don't want to see Natives at the table.

Let me tell you about a couple of our shareholders, and the direct impact this program has had on their lives:

Jason Totemoff is a young Chenega Corporation shareholder, and a full-time employee of our company. He received his degree in Process Technology, which he was able to obtain through scholarships Chenega Corporation provided to him, and to hundreds of other students. While attending university, Jason completed a formal internship with Chenega Technology Services Corporation, a Chenega Corporation subsidiary. Jason says of his experience, "My experience at CTSC is nothing less than incredible. The skills that I have obtained will benefit me throughout my life, giving me the possibilities to venture into careers I otherwise would not



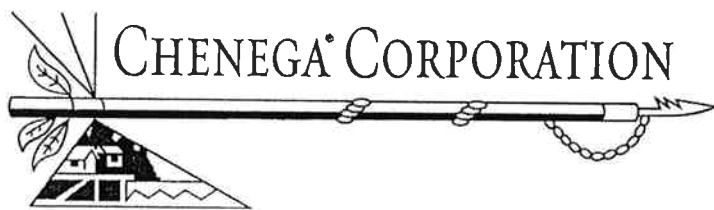
have.” If it were not for the support Chenega Corporation provides Jason would have no option but to be a deckhand on his father’s commercial fishing boat.

And then consider Margaret Borodkin, one of Chenega’s revered Elders in her late 80’s. Margaret, like most Alaska Native Elders, never worked for a corporation that would one day provide her with a pension. She relies greatly on the quarterly dividends Chenega Corporation provides to help pay for her groceries and heating bill. Margaret spoke recently at a Corporation sponsored Language Preservation meeting that she is very proud of the corporation and what it has accomplished, and thankful it is here to help care for her. We will never forget our Elders.

Unlike most corporations, our mission has a dual purpose. In addition to our business execution, we use the results of our business to further our people, societal, cultural and community needs and activities. Many cultures will allow others to take care of their people. Alaska Natives take care of their own, in the cultural fashion of caring and sharing.

Some of the benefits and programs enjoyed by Chenega shareholders, descendants and spouses are:

- **Internships**
- **Scholarships**
- **Community Projects and Shareholder Assistance**
- **Elders Benefit Program**



- **Funeral and Burial Assistance**
- **Dividends**
- **Cultural & Language Preservation Programs**
- **Employment Assistance**

Now allow me to directly address the issue of the private security guard contract.

After being contacted by the Small Business Office of the Army concerning this opportunity, Chenega presented a capabilities brief to the Army. What was emphasized was Chenega's proven performance in managing large government contracts and the experience of its new CEO in government security. Initially, CIS was told by the government to team with a reputable security firm to provide more in depth experience. Teaming is a common practice and offers the USG a synergism of skills at least until the 8(a) prime has acquired such skills.

CIS was awarded a fixed-price, award fee, multi-year IDIQ contract with delivery orders initially amounting to \$28 million for seven installations located in six states, staffed at 525 security officers. The first installation met full performance by September 11th and the last two by October 30th 2003. The first across-the-board performance rating was 96%.

Subsequently, the NRCC issued a delivery order amounting to an additional 57 million for 15 installations, located in 11 states, staffed at 1,050 officers. By February 2005, we were performing armed security services on 26 U.S. Army installations, located in 14 states and the



District of Columbia, staffed with 1,800 security officers. The contract ceiling had increased to \$500 million.

Our second six month performance evaluation was completed in September 2004. We increased the score to 97%. Our last 3 six-month's evaluations have risen to an average rating of 99%. These evaluations are not the professional opinion of one person, but rather represent the judgment of 25 disparate local contracting officer technical representatives.

Our senior management team consists of former senior uniformed service leaders and federal and state law enforcement officials. Our security officers are of the highest quality; they are highly screened and thoroughly trained before performing their duties. Contrary to the GAO report, no known felons have been hired by CIS. GAO audits also revealed that all required training was conducted at CIS sites.

The direct award of these services has proven very successful. So successful that the Army turned to Chenega/Alutiiq to fulfill the third and largest phase of the acquisition. Ironically, the majority of the adverse issues outlined in the GAO's report can actually be attributed to the competitive portion of the contract.

The GAO report states that ANCs are 25% more expensive than full and open. 25% seems excessive since this contract is 95% labor and the wages are established by the Service



Contract Act (SCA). However: Chenega negotiated the price with the government. At those locations where the Department of Labor rates were out dated or excessively low, CIS suggested, and the USG agreed, to raise the rates above the SCA. This was done to minimize personnel turnover after very expensive training. Industry average turnover exceeds 50%.

Prevailing wages (Department of Labor Wage Determination) are 15% higher (on average) at the ANC contract sites vs. the competitive contractor's sites. Any contractor, no matter how the contract was awarded, is required to pay these higher wages.

ANC contractors negotiated with the Army to pay employees higher wages to attract *higher* caliber security guards at the Army's request. This agreed upon higher wage equates to an additional 12% of the competitive contractor's average prevailing wage.

Full and Open does not always mean less costly over the long run. As above, the Army's decision to pay a higher DOL labor rate to ANC Security Officers has resulted in a more professional and reliable workforce—less turnover and less long-term costs. The problems that the GAO report found, improper training, improper supervision, high turn over, bad records, etc., are nearly all attributable to the competitive contracts, not the ANC contracts.



In summary, the Chenega Corporation and its subsidiaries go to great lengths to provide tangible benefits to the shareholders and their families. These benefits go beyond that of the normal role of a traditional corporation but reflect the special obligations. We do this while still providing excellent service to our federal customers.

Finally, let me stress something about the SBA 8(a) program. It is not wealth redistribution. Despite the many wonderful things the program has done for our shareholders, this is not a welfare program. It is not a jobs program. It is a means by which our villages can learn to stand on their own feet, and Chenega has done that. We have developed expertise, and we provide quality service to our federal customers. The contracts are negotiated, the terms are competitive, and our customers are happy. Chenega routinely earns performance scores in the mid-to-high 90s, and our customers come back time and time again, when they do not have to.

I sit before you today as a very proud Chief Executive Officer, and a very proud leader of my Native Community.